

THE WALL STREET JOURNAL.

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<http://www.wsj.com/articles/glencore-reports-loss-warns-on-trading-profit-1439966673>

BUSINESS | EARNINGS

Bad Bets Sock Mining Giant

Glencore's first-half results worse than expected, but holds interim dividend steady



Mining and commodities-trading group Glencore swung to a first-half net loss and warned that earnings from its trading arm this year won't be as good as previously expected amid tumbling raw-material prices. *PHOTO:*

ASSOCIATED PRESS

By ALEX MACDONALD

Updated Aug. 19, 2015 8:19 p.m. ET

LONDON—A year ago, Glencore PLC Chief Executive Ivan Glasenberg was plotting his next big deal: a proposed \$150 billion merger with rival miner Rio Tinto PLC, just as the ink was drying on his \$29.5 billion deal for Xstrata.

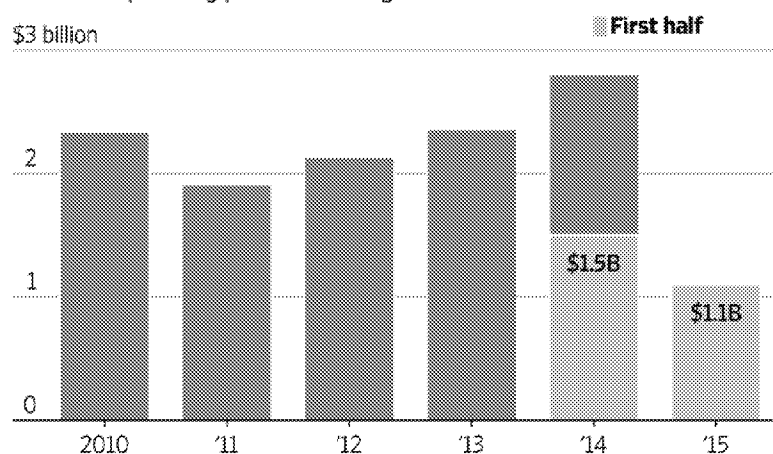
Since then, the Swiss mining and commodities giant has lost more than half its market value on falling prices of everything from copper to coal. Its massive trading floor, which Mr. Glasenberg said would cushion it from market swings, isn't fully delivering. And Glencore's debt, the largest among the big miners, is spooking investors, who worry the company may lose its investment-grade credit rating.

On Wednesday, Glencore reported a sharp half-year loss, and its shares tumbled nearly 10%, wiping away another \$3.5 billion of market value. The company is now worth about \$32.5 billion, down from about \$75 billion at the start of July 2014 when it approached Rio over a merger, which was rebuffed. Glencore's net debt now stands at \$29.6 billion.

Trading Down

Glencore operating profit in trading business

\$3 billion



Source: the company

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In a sign of how dramatically Glencore's fortunes have turned, Mr. Glasenberg said in an interview that he continues to be on the prowl for "opportunistic" acquisitions, but also wouldn't rule out a merger offer or takeover bid for the company, though neither has materialized. If "good opportunities come that make economic sense,

we will look at [them]," Mr. Glasenberg said.

Glencore's mining business has been hit by the same commodities-market turmoil hammering other big miners, including a slowdown in China. Glencore's relatively diverse exposure to various metals was supposed to help protect it. But recently, copper and some other commodities to which Glencore is heavily exposed, also have fallen sharply.

Mr. Glasenberg has said markets will recover during the second half of the year, an outlook that many market watchers don't share.

"Ivan got up and said 'I don't know what the fuss is all about' and that the market is going to recover imminently," said Anthony Sedgwick, a fund manager and co-founder at South Africa-based Abax Investments. The fund invested in Glencore at its Johannesburg secondary listing in 2013, but has since divested its entire stake. "He's blown his credibility."

Still, Glencore won over one high-profile backer this week. U.S. investment fund Harris Associates LP said it had boosted its stake in Glencore to about 4.5%.

EARLIER COVERAGE

- Heard on the Street: Glencore Finds Cash But Not Comfort (<http://www.wsj.com/articles/glencore-finds-cash-but-not-comfort-1439984262>)
- The Numbers: Glencore's First-Half Earnings Disappoint (<http://blogs.wsj.com/briefly/2015/08/19/glencores-first-half-earnings-disappoint-the-numbers/>)
- (<http://blogs.wsj.com/briefly/2015/08/19/glencores-first-half-earnings-disappoint-the-numbers/>) From Mining to Refining: Low Commodity Prices Force Shift at Industry Giants (<http://www.wsj.com/articles/from-mining-to-refining-low-commodity-prices-force-shift-at-industry-giants-1440063075>)
- Harris Boosts Stake in Glencore (<http://www.wsj.com/articles/hedge-fund-boosts-stake-in-glencore-1439925692>) (Aug. 18)
- Glencore Cuts Capital Spending (<http://www.wsj.com/articles/glencore-hit-by-write-down-cuts-capital-spending-1439457130>) (Aug. 13)
- Glencore's Strategy Has Some Investors Worried (<http://www.wsj.com/articles/glencores-strategy-has-some-investors-worried-1438889185>) (Aug. 6)
- Miners Slash Jobs on Falling Commodity Price (<http://www.wsj.com/articles/miners-shed-thousands-of-jobs-as-commodities-prices-slide-1437740084>) s (Jul. 24)

MARKET TALK

Glencore Slides on Debt, Writedown Concerns Glencore's shares slumped after its management said the company will consider, if necessary, further write downs, possibly on its Koniambo nickel project in New Caledonia and Optimum Coal assets in South Africa. Glencore CFO Steven Kalmin said that the company will do everything within its means to protect its investment-grade credit rating. That said, Glencore CEO Ivan Glasenberg conceded: "Even if we drop one notch, it's not a high cost to the company." Earlier Wednesday Glencore had reported a steep, first half-year loss, hit by sharp price falls in the raw materials it extracts and lower profit from its trading business. (alex.macdonald@wsj.com)

Glencore Tumbles After Results London's FTSE 100 is 1.1% lower at 6457.69, with close to every stock trading down on the day. Glencore is underperforming all other names, down 5.3%. The world's third-largest globally diversified miner by market capitalization earlier reported a net loss of \$676 million in the six months to end-June--missing analysts' expectations for a net profit of around \$728 million. Other miners are under pressure too, following another volatile session in Chinese markets. Later in the day, attention will turn to the release of the minutes from the most recent U.S. Federal Reserve meeting. Investors will seek any hints on the likely timing of a first rise in interest rates since the financial crisis. (josie.cox@wsj.com)

Glencore Still Needs To Do Some Explaining, Says Liberum
Glencore's management has to explain why it's so optimistic about a recovery, says Liberum Capital analyst Ben Davis. The company has lowered 2015 marketing EBIT guidance to a range of \$2.5 billion to \$2.6 billion from \$2.7 billion to \$3.7 billion, implying a 25% recovery in the second half compared with the first half, "but there is little to suggest that physical [premium prices] will recover" considering the relatively sluggish Chinese economy. Glencore "still believe[s] that commodity prices do not reflect the underlying fundamentals.... We are not as bullish and believe that the industrial assets that are operating at [an] underlying loss of \$71 million, will come under further pressure."

Market Talk is a stream of real-time news and market analysis that's available on Dow Jones Newswires

"The thesis remains the same: it is a quality, well-run business selling at a now-even lower price," David Herro, Harris' deputy chairman and a chief investment officer at the firm, said in an email.

Glencore was created by the late Marc Rich, a financier indicted in the U.S. for tax evasion and later pardoned by President Bill Clinton. It has long been one of the world's biggest commodities traders.

Mr. Glasenberg took the company public in 2011, valuing his stake then at \$10 billion. He remains its second biggest shareholder, behind sovereign-wealth fund Qatar Holding LLC. He followed the initial public offering by launching within a year the megadeal for Xstrata. The deal made Glencore one of the biggest miners in the world.

Mr. Glasenberg has said the company's hybrid nature—a global diversified miner combined with one of the world's biggest commodities trading operations—could protect its performance from some of the ups and downs of the markets.

But on Wednesday, the company's trading division reported first-half adjusted earnings fell 29% over a year earlier to \$1.1 billion, less than some analysts expected. Deutsche Bank had been forecasting \$1.2 billion in earnings before interest and taxes.

The company also lowered its forecast for the trading division's full-year adjusted earnings to a range of between \$2.5 billion and \$2.6 billion. Mr. Glasenberg had said as recently as March that the division would earn between \$2.7 billion and \$3.7 billion "no matter what commodity prices are doing."

Investors have long puzzled over how exactly to gauge trading-floor performance. Most of Glencore's biggest commodities trading peers are private, with fewer requirements to disclose performance.

"They had to lower guidance" on trading operations, said Nik Stanojevic, an equity analyst at Brewin Dophin Ltd., a \$40-billion private wealth manager and a relatively small Glencore investor. "...That is a very negative thing."

Glencore, of Baar, Switzerland, on Wednesday posted a net loss of \$676 million in the six months to the end of June, compared with net profit of \$1.72 billion in the same period last year. Revenue fell 25% to \$85.71 billion.

Glencore said it had reduced its debt load, and vowed to do everything it could to protect its investment-grade credit ratings. Chief Financial Officer Steven Kalmin said, however, there may be factors outside the company's control that could threaten the rating. During a conference call with analysts Mr. Glasenberg said, "Even if we drop one notch, it isn't a high cost to the company."

The company has a BBB credit rating from Standard & Poor's, the firm's second-lowest investment-grade rating. A drop below investment grade would jack up financing costs for its trading business.

"Net debt of \$30 billion appears uncomfortably high," wrote analysts at investment bank VSA Capital Ltd., adding: "Far more drastic action is likely to be necessary to strengthen the balance sheet."

Mr. Glasenberg said Glencore plans to reduce net debt to \$27 billion by the end of 2016, while maintaining its dividend payments. Glencore on Wednesday kept its interim dividend at six cents a share. Mr. Kalmin, the CFO, said he wouldn't rule out cutting the dividend to save its credit rating.

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